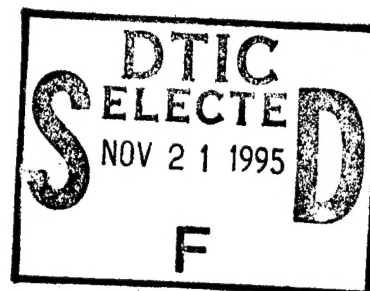


# NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



## THESIS

### OVERCOMING THE MARINE CORPS PROGRAM MANAGERS' EXPENDITURE REPORTING DELAYS

by

David M. Blaul

June, 1995

Principal Advisor:

Walter E. Owen

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**OVERCOMING  
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EXPENDITURE REPORTING DELAYS**

David M. Blaul  
Major, United States Marine Corps  
B.A., Cardinal Stritch College, 1982

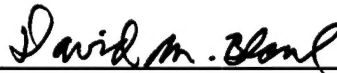
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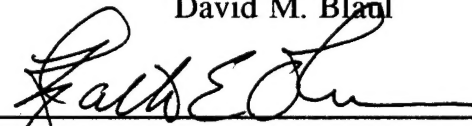
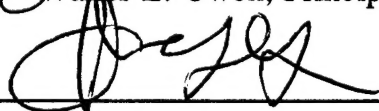
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June 1995**

Author:



David M. Blaul

Approved by:

  
Walter E. Owen, Principal Advisor

Douglas Moses, Associate Advisor



David R. Whipple, Jr. Chairman  
Department of Systems Management





## ABSTRACT

Marine Corps program managers at MARCORSYSCOM have a genuine need for timely and accurate expenditure reporting information in order to achieve effective planning and budgeting for future programs. Since expenditures are not always recorded accurately during the reporting process, program managers experience delays. Delays are often caused by incomplete or inaccurate data in the accounting system and are then perpetuated throughout, if not reconciled early. The consequences of the delays involve marks against programs' budget dollars. Although memorandum accounting is used to track expenditures, it is an inefficient method. To resolve the delay issues, a series of short and long-term solutions is needed. Short-term solutions entail better training as well as procedures for resolving cross disbursements. Long-term solutions include standardization and designing one compatible accounting system that satisfies the finance, accounting and acquisition communities.

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## **I. INTRODUCTION**

### **A. PURPOSE**

The purpose of this thesis is to explore and develop solutions to the problems created by delays between making program expenditures and the reporting of those expenditures while executing the program budget for program managers at the Marine Corps Systems Command (MARCORSYSCOM).

### **B. THE PROBLEM**

In order to achieve effective planning and budgeting for future programs, the program managers at MARCORSYSCOM have a genuine need for timely and accurate expenditure reporting information. Unfortunately, they do not always get it. As a result of the reporting process, they experience inordinate delays. Expenditures are either not recorded in the official accounting system, or their recording excessively lags the actual expenditure of funds. When this problem was first presented to the researcher, it appeared that the delays were experienced between obligations and expenditures. In fact, the source of the apparent problem is a delay between actual expenditures and the reporting of those expenditures. Funds are obligated, but there is no evidence of an expenditure made against the obligation.

An expenditure occurs as the Marine Corps disburses a payment from an invoice presented by a contractor for materials or services received. [Ref. 1] The Defense Finance and Accounting Service (DFAS) finance office making the payment then inputs accounting data into the accounting system. The problem exists when data are input incorrectly or not at all. As the information flows through the functions that make up the process, errors are perpetuated. An unmatched disbursement occurs when the finance office makes a payment to a contractor (an expenditure), but that payment

does not match the payment information originally established in the official accounting record. [Ref. 2] When the unmatched disbursement file is researched and attempts are made to correct errors, reconciliation of those errors may, in itself, also cause errors.

The absence of timely expenditure information does not allow program managers to make effective decisions for future planning, programming and budgeting or to defend their budget requests when they are reviewed by higher authority. When accounting records do not show that previously appropriated funds have been spent, the Navy Comptroller's office (NAV-COMPT), the Office of the Secretary of Defense (OSD) and Congressional budget analysts are disinclined to support budget requests for new year funding. It has become necessary to reconcile expenditures by alternative means. Memorandum accounting is an inefficient method to collect pertinent expenditure data by tracking down copies of vouchers and using supplemental accounting systems. Use of memorandum accounting is becoming increasingly unacceptable to budget analysts. The end result is the lack of a properly defended budget and ultimately, the loss of required funding.

### **C. OBJECTIVES OF THIS STUDY**

This thesis expounds on and contributes to the body of knowledge already available on the subject of Marine Corps expenditure reporting delays. It is expected to benefit Marine Corps program managers and other key decision makers at MARCORSYSCOM. Potential solutions found will provide expedient feedback on expenditure reporting so that future planning, programming and budgeting decisions can be made more timely and effectively.

#### **D. RESEARCH QUESTIONS**

The primary research question is - Why do Marine Corps program managers at MARCORSYSCOM experience delays between program expenditures and the reporting of those expenditures?

Subsidiary research questions include:

1. What is the role of the Defense Finance and Accounting Service (DFAS) in relation to the delays experienced by program managers?
2. Are other programs/Services experiencing similar delays? And, if so, how are they addressing them?
3. What are the sources of the reporting delays?
4. What are the consequences to the program manager as a result of the reporting delays?
5. What is the current expenditure reporting process?
6. What solutions can be offered to help the program manager reduce the delays created by the expenditure reporting process?

#### **E. SCOPE, LIMITS AND ASSUMPTIONS**

This thesis will analyze and explore the interaction among various program offices, Marine Corps program managers and the Defense Finance and Accounting Service (DFAS) within the expenditure reporting process. Specifically, it will address the reporting delays associated with program expenditures and the reporting of those expenditures for program managers at MARCORSYSCOM. The issue of late reporting will be investigated to the extent that it effects the planning, programming and budgeting decisions. The analysis will further discuss the consequences of late reporting and explore possible solutions directed at reducing or eliminating delays in the official reporting of financial information. It is recognized that expenditure reporting delays are both a Federal and DoD-wide problem. After a review of the DoD budget process, this study will focus on the Marine Corps'

aspect of it. It will not attempt to solve all expenditure reporting problems within DoD, although some of the solutions may be applicable to other Services. It is assumed that individuals in the field provide honest answers - those that lead the researcher to practical solutions. The lack of specific previous research on the expenditure reporting problem is a limitation. As a result, the majority of research data will be generated from interviews.

#### **F. METHODOLOGY**

The primary method used for obtaining research data was on-site and telephone interviews conducted with personnel from the field offices involved. These offices included MARCOR-SYSCOM, the Defense Finance and Accounting Service (DFAS)-Kansas City and pertinent program offices. Additional data were collected from Defense Management Review Decision (DMRD) 910, telephone interviews with other Services' finance centers and various offices involved in the expenditure process. Personnel, information flow, process and procedures were observed to extract pertinent data that answered research questions and their critical issues. To collect opinions from professionals currently working in the field with expenditures and their accompanying systems, an investigative questionnaire was designed (See Appendix). It contained certain measures of effectiveness thought to lead the researcher in a logical fashion toward closing the gap between expenditures and their subsequent reporting. Interviewed were budget analysts, accounting systems managers, financial managers and program management personnel. Data were then analyzed and categorized with the purpose of exploring and substantiating potential solutions within the scope of the research area.

## **G. LITERATURE**

The amount of literature written specifically on the research area is limited. However, some references, mostly Government sources, refer to the area of research in a number of ways. Articles written in recently published accounting and finance magazines were investigated with the intent to provide background information for the research area. Various entries available from the Defense Logistics Studies Information Exchange (DLSIE) were researched for relevance. An attempt was made to analyze causal relationships among key factors effecting expenditure reporting and associated delays. Additional research included unmatched disbursements in the Navy, their causes, consequences and potential solutions that showed similarities with unmatched disbursements in the Marine Corps.

## **H. TERMS, DEFINITIONS AND ABBREVIATIONS**

AFO - Accounting and finance office.

Appropriation - A part of an appropriation act providing a specific amount of funds to be used for designated purposes.

Budget - A plan of operation for a fiscal period in terms of (1) estimated costs, obligations and expenditures; (2) source of funds for financing including anticipated reimbursements and other resources; and (3) history and workload data for the projected programs and activities.

Budget authority - Authority provided by law to enter into obligations which generally result in immediate or future outlays of Government funds.

Budget formulation - A process which incorporates those actions performed in the development, review, justification and presentation of budget estimates.

Budget request - The actual budget that is submitted through an organization's chain of command.

Cross disbursement - A transaction that occurs when one Service procures materials or services from another Service.  
[Ref. 3]

DAO - Defense Accounting Office.

DFAS - Defense Finance and Accounting Service.

DFM - Deputy for financial management.

DIC - Document identification code.

DLSIE - Defense Logistics Studies Information Exchange.

DNR - Disbursing notification record.

DoD - Department of Defense.

DoN - Department of the Navy.

Execution - The operation of carrying out a program as contained in the approved budget. Often referred to as "budget execution".

Expenditure - An accounting term used to describe the satisfaction of an obligation; either through the transfer of funds (e.g., from O&M, MC to the Defense Business Operations Fund



(DBOF)) or the disbursement of funds from the U.S. Treasury. Expenditures represent actual payments for goods or services and occur when a document is received and payment is made (physically cutting a check for a contractor to receive). Commitment and obligation must occur before expenditure can take place.

Expenditure reporting delay - A time lag that exists between actual expenditures and the reporting of those expenditures.

FIP - Financial information pointer.

FO - Finance office; synonymous with disbursing office.

GAO - General Accounting Office.

HAS - Headquarters Accounting System.

HQMC - Headquarters, Marine Corps.

Liquidation - Accounting term for expense (funds spent).

MARCORSYSCOM - Marine Corps Systems Command.

Mark - Decision, by line item, indicating a change (usually a decrease) in a budget request.

MCERRS - Marine Corps Expenditure Reporting Reimbursement System.

O&M - Operations and Maintenance.

Obligation - A duty to make a future payment of money. It is incurred as soon as an order is placed, or a contract is

awarded for the delivery of goods or the performance of services. It is not necessary that goods actually be delivered, or services actually be performed before the obligation is created; neither is it necessary that a bill, or invoice, be received first. The placement of an order is sufficient. An obligation legally encumbers a specified sum of money which will require an outlay or expenditure in the future. When preparing obligation/outlay forecasts, the financial manager has greater control over commitments and obligations affecting the program than over expenditures.

OPBUD - Operating budget.

OSD - Office of the Secretary of Defense.

PMC - Procurement, Marine Corps.

POM - Program Objectives Memorandum.

Program - A combination of program elements designed to express the accomplishment of a definite objective or plan. The accomplishment of specific tasks are time phased and the means to their accomplishment are proposed.

Progress payment - Payments made as work progresses under a contract, upon the basis of costs incurred, percentage of completion accomplished or a particular stage of completion. Progress payments relieve the contractor from complete financing of contracts for large amounts or which extend over a long period of time. Progress payments are made to the contractor when requested, as work progresses, but not more frequently than bi-weekly in amounts approved by the contracting officer. [Ref. 4]

R&D - Research and Development.

Reclama - A formal appeal in the DoN/DoD decision making process through which an issue that has been disapproved (in whole or in part) may be resubmitted for further consideration.

Reservation - Administrative hold on funds in the accounting system.

SABRS - Standard Accounting Budgeting and Reporting System.

Undistributed disbursement - A disparity where an obligation has been made but no expenditure has been entered into the official accounting system.

Unliquidated obligation - See undistributed disbursement.

Unmatched disbursement - A disparity where a disbursement (expenditure) has been made and entered into the official accounting system but cannot be matched with any existing outstanding obligations. It is a failure to post an obligation or an erroneous data entry that may result in a disbursement that cannot be matched to an existing obligation.

USMC - United States Marine Corps.

Voucher - Any document which is evidence of a transaction, showing the nature and amount of the transaction. It usually indicates the accounts in which the transaction is to be recorded. [Ref. 5]

## **I. SUMMARY OF FINDINGS**

The action of reporting expenditures is imbedded within a lengthy process of Government red tape. Once the Marine Corps gets involved in the process, it must process expenditures through the official accounting system. This process occasionally causes and perpetuates errors of various kinds. Research has found numerous sources of errors that can cause delay, such as training of personnel and communication, to name a few. In addition, there are types of errors and certain situations that lend themselves vulnerable to creating more errors. Unfortunately, delays lead to unfavorable consequences for programs, including marks against budget dollars. As previously mentioned, memorandum accounting is an inefficient method to track expenditures in this situation. Instead, there are more efficient solutions to reduce delays in the process. Short-term solutions entail better training and procedures for cross disbursements. Long-term solutions include standardization and designing one compatible accounting system that satisfies the finance, accounting and acquisition communities.

## **J. ORGANIZATION OF STUDY**

Chapter I (Introduction) states the purpose of the thesis. It defines the problem for the program managers at MARCORSYSCOM in relation to their ability to make effective decisions for future planning, programming and budgeting or to defend their budget requests. It explains the objectives of the study and states the primary and subsidiary research questions. It further defines the scope, limitations and assumptions behind the research effort before discussing the research methodology. Finally, Chapter I addresses literature research and concludes with a listing of terms, definitions, and abbreviations.

Chapter II (Background) provides a setting of information on which to view the expenditure reporting delay problems encountered by program managers. It mentions Department of Defense accounting and finance initiatives for improvements in transaction recording and stresses the importance of eliminating expenditure reporting delays.

Chapter III (Current Processes) starts the analysis portion of the study and explores the entire expenditure process by looking at its pieces. It illustrates that expenditures must go through multiple actions and systems before they complete the entire cycle. As a result of this complicated process, the opportunity for error not only exists, but perpetuates further errors.

Chapter IV (Sources of Late Reporting) analyzes the origins of late expenditure reporting in the Marine Corps. It discusses similar findings in the Navy and breaks the sources down into logical categories including types, causes and situations which lend themselves to expenditure reporting delays. It discusses why the root causes of unmatched disbursements are due to incomplete or inaccurate data in accounting systems as well as a lack of timely communication among the stakeholders.

Chapter V (Consequences) points out the adverse impacts of late expenditure reporting and completes the analysis portion of the thesis. It discusses cross disbursements and looks at memorandum accounting as an alternative means to prove and substantiate program budget execution. Finally, it analyzes the potential funding jeopardy posed to programs by expenditure reporting delays.

The last chapter, Chapter VI (Solutions), explores potential solutions to expenditure reporting delays. It discusses the need for better communication among all players in the process and offers a series of short and long-term

solutions to bridge the gap between actual expenditures and the reporting of those expenditures.

## **II. BACKGROUND**

### **A. OVERVIEW**

This chapter provides a background to view expenditure reporting delay problems encountered by program managers at MARCORSYSCOM. It discusses general and specific financial management initiatives and regulations. Accounting systems will be briefly introduced before discussing accounting disparities and the process to correct errors in expenditure reporting.

### **B. GENERAL FINANCIAL MANAGEMENT**

#### **1. Improvements**

The Clinton Administration is committed to improving financial management throughout the Department of Defense. This objective will take commitment, courage and perseverance to successfully accomplish. We are in the midst of a revolution in the overall Federal management culture. The boundary between effective general management and the required financial management has become blurred. To achieve the highest return on the taxpayer dollar, the move today is towards accountability at all levels. In this regard, the Department of Defense, and thus the Marine Corps, has one of the most crucial challenges facing the nation today. The challenge is to control spending and infrastructure costs. The way to reduce spending is to develop a better understanding of the extent of support required by a "ready-to-fight" force. By providing accurate information on which to make decisions, better financial information can help us develop that understanding. We cannot forfeit the goal of increasing cost awareness.

The current environment and the need to maintain a "ready-to-fight" force within smaller budgets are driving the

need for change. Ultimately, we can maintain readiness through improved financial management.

## **2. Shrinking Budgets**

### **a. Transformation**

In the wake of a global security transformation, the U.S. defense posture is undergoing a transformation. We are developing a new defense strategy, supported by smaller, high-quality forces and sustained within a shrinking defense budget. Every dollar we can save by minimizing our defense support infrastructure and by cutting unneeded production means a dollar available for buying real military muscle. [Ref. 6]

### **b. Chief Financial Officers Act**

Congressional enactment of the Chief Financial Officers (CFO) Act on November 15, 1990, marked the beginning of what promises to be a new era in Federal financial management. Decision-makers will get better information with more accountability for Federal resources. Getting a handle on the finances of the U.S. Government is a formidable task. Despite past efforts to improve its financial management systems, the U.S. Government operates on the basis of financial information that is often inconsistent, incomplete, incorrect, and untimely. Better financial information is urgently needed in light of the tough choices U.S. lawmakers face in trying to reduce the Federal budget deficit and efficiently deliver quality products and services.

The CFO Act is intended to guide U.S. lawmakers through these choices, and to improve all Federal operations by increasing the quality of financial information and by ensuring basic accountability and financial control. The Act, which applies to the U.S. Government's fourteen Cabinet departments and nine major agencies, provides for long-range planning. In addition, it requires audited financial statements, strengthens accountability reporting and establishes a



leadership structure to guide these new operations. The CFO Act views financial management very broadly. The legislation stipulates that financial information should be useful to decision-makers. It also focuses on the need to link budgeting and accounting information so that Government officials can compare planned and actual expenditures. Such comparisons enhance accountability. [Ref. 7] Further efforts to make Government more efficient are found in DoD initiatives calling for consolidations of functions. The Defense Finance and Accounting Service (DFAS) is one result of these efforts.

### **C. DEFENSE FINANCE AND ACCOUNTING SERVICE**

#### **1. Defense Management Report Decision 910**

##### **a. General**

In December 1991, the Deputy Secretary of Defense approved the capitalization, by the Defense Finance and Accounting Service (DFAS), of certain financial functions previously performed by the DoD Service components. This capitalization took place in January 1991 and called for the transfer of ownership, command and control of these functions to DFAS. In providing for this capitalization, the Deputy Secretary of Defense directed the development of a detailed implementation plan. A proposed implementation plan was submitted to the DoD Comptroller in May 1992, and approved on August 6, 1992. The proposed plan varied from previous estimates of resources to be transferred to DFAS. Additionally, the successful implementation of approved accounting and finance initiatives was premised on the transfer of ADP support functions for accounting and finance operations from the DoD components, including DFAS, to the Defense Information Technology Services Organization (DITSO). Such a transfer is vital to the success of many ongoing and anticipated accounting and finance initiatives. [Ref. 8]

### **b. Details**

Defense Management Review Decision 910 directed DFAS to consolidate DoD finance and accounting operations. Through the initiatives of DMRD 910, DFAS has a mission to provide effective and efficient finance and accounting policy, systems and services during times of peace and conflict. DFAS became responsible for handling all finance and accounting functions for DoD. This includes nearly \$300 billion in fund obligations and payroll services for over six million military and civilian personnel. It also includes payment of millions of invoices and transportation bills and financial management of the multi-billion dollar foreign military sales program. Several goals were established for DFAS:

- Measure and improve the quality of service provided to customers.
- Consolidate all DoD finance and accounting functions at a limited number of centers and retain face-to-face customer support at the local level.
- Reduce operating costs by half within five years.
- Provide an environment which maximizes the opportunities for growth and development of DFAS personnel.
- Provide managers and authorized users with on-line access to managerial accounting information down to the work center level.
- Develop and operate standardized systems within five years.
- Apply new methods and technologies to improve customer service and reduce operating costs.
- Integrate financial services throughout all aspects of DoD's operations.
- Ensure consistent implementation of finance and accounting policy throughout DoD.
- Achieve national recognition of excellence in service and economy of operation.

With capitalization, DFAS was established as the accounting firm for DoD. As such, DFAS has ownership and responsibility for the following accounting systems and processes: all general funds, Defense Business Operations Funds (DBOF), revolving funds, trust funds and other accounts, accounts payable, accounts receivable, debt management, cash accounting, nonappropriated funds finance and accounting, funds authentication, disbursing and some managerial accounting. Although the goal is to consolidate these functions over a period of years, DFAS has capitalized them in place, assuming ownership, command and control over the functions. Marine Corps assets included in the capitalization were twenty-five field accounting offices (FAOs) which perform appropriated fund accounting functions. [Ref. 9]

## **2. Vision**

Due to a changing world order and planned reductions in resources, the Department of Defense must move toward fewer, but more highly standardized and technically advanced, finance and accounting systems and operations. DFAS has assumed full management responsibility for the finance and accounting functions of DoD components. Through its centers and a network of decentralized customer support facilities, DFAS will provide all of the DoD with finance and accounting services.

The eventual number and location of Service centers will be determined by an evaluation of need, cost effectiveness and community support. Certain finance and accounting functions will be consolidated DoD-wide at a single or limited number of centers. According to DFAS, within five years of its inception, the current baseline cost of operating the DoD finance and accounting network will be reduced by one-half. These savings will be achieved by consolidating operations; standardizing policy, systems and operations; expanding innovative use of technology; increasing work force productivity;

eliminating unnecessary policies and procedures; and, as a result of the major drawdown, restructuring Defense forces worldwide.

After its formation, DFAS started to lay out plans to develop a single set of finance and accounting policy and procedures. At the same time, it planned to study and analyze finance and accounting systems and operations in order to make recommendations on how best to achieve economies and efficiencies for the Department of Defense. While one group of teams started developing the consolidated finance and accounting policy and procedure regulations, several other teams started studying efforts to review finance and accounting systems. [Ref. 10] DFAS has taken a major step towards developing innovative systems and business practices needed to meet the financial management challenges of a smaller, more efficient Department of Defense. [Ref. 11] A necessary-first step in resolving serious problems, including delays in expenditure reporting, is to acknowledge their existence. Only then can effective corrective actions be identified and implemented. [Ref. 12] Also, a set of regulations is necessary to guide personnel through the expenditure process.

#### **D. REGULATIONS**

##### **1. Procedures**

Organizations have administrative control procedures designed to prevent unauthorized disbursements and purchases and to ensure that they do not obligate or spend (expend) more funds than the Congress has appropriated. These control procedures require the organizations to match disbursements with the related obligations in the accounting records as payments are made. The Defense Finance and Accounting Service (DFAS) is now responsible for these procedures.

## **2. Legal Requirements**

Federal executive agencies, including the Department of the Navy and thus the Marine Corps, are responsible for ensuring that their funds are expended in accordance with the purposes and limitations specified by the Congress. The Antideficiency Act (31 U.S.C. 1341 and 1517) prohibits agencies from over-obligating or over-expending their appropriations, apportionments, and administrative divisions of funds. To implement these requirements, DoD Directive 7200.1 specifies the requirements for accounting and fund control systems for DoD. The directive states that these systems are designed to ensure that funds are used only for Congressionally authorized purposes, and that payments are not made in excess of amounts available. [Ref. 13] This ensures an intended match between obligations and expenditures. This match, is not guaranteed from an accounting point of view, however, and must be acted upon in the event of a mismatch.

## **3. Recording**

In order to comply with legal and regulatory requirements, DoD organizations' accounting and fund control systems must be able to record disbursements as expenditures of appropriations and as reductions of previously recorded obligations. Proper matching of disbursements with related obligations is necessary to ensure that the agency has reliable information on the amount of funds available for budget control. To ensure that disbursements are valid and accounting records are accurate, the Navy Comptroller Manual (volume 2, chapter 9) requires prompt matching of disbursements with obligations. Prompt means that upon receiving the information, an entry should be made immediately, without delay. The National Defense Authorization Act for Fiscal Year 1991 limits the time that expired appropriations are available for disbursement to five years. [Ref. 14] In the event that erroneous data are resident in the accounting

system, corrective action is required to meet the statutory time limit.

## **E. ACCOUNTING SYSTEMS**

### **1. General**

The accounting and reporting of appropriated funds is accomplished through the use of a variety of standard and non-standard systems. The Marine Corps developed the Standard Accounting, Budgeting and Reporting System (SABRS) to account for and manage the Operations and Maintenance, Marine Corps (O&M, MC) and Operations and Maintenance, Marine Corps Reserve (O&M, MCR) appropriations. SABRS is designed to standardize procedures throughout the Marine Corps for all units, including Headquarters Marine Corps. In addition, it is fashioned to marry-up budget formulation data with budget execution data. [Ref. 15] SABRS currently has an interface that feeds into the Headquarters Accounting System (HAS) to update expenditure information. HAS is the system developed to account for and manage the Procurement, Marine Corps (PMC) and Research and Development (R&D) appropriations. It is designed to provide a summary of transactions from Marine Corps field operations. Both are owned and controlled by DFAS and produce the documentation that is looked at to determine expenditure reporting in relation to obligations; they represent the official Marine Corps accounting system. Accounting and reporting for all other appropriated funds occurs through the use of locally developed, non-standard systems. [Ref. 16]

### **2. Ownership**

Since the accounting function for the Marine Corps is now centralized under DFAS, the Marine Corps no longer has organic support over this function. Subsequently, program managers do not have the control they once had since they no longer "own" the function of expenditure reporting. The ownership issue

becomes crucial to program managers as they research the accounting systems' documentation to determine reporting in relation to obligations for their programs. In addition, MARCORSYSCOM does not have a direct role in expenditure reporting. It monitors obligation and expenditures and develops justifications for budget exhibits and formulation for the program objectives memorandum (POM). Where disparities occur, budget analysts must manually reconcile local records.

## **F. ACCOUNTING DISPARITY**

### **1. Process**

The flow of accounting data for expenditures must go through the contractor, program management/project office, contracting office, finance office, DFAS system and the defense accounting office (DAO) as follows:

- Program office issues request for procurement.
- Contracting office awards a contract (funds get obligated).
- Contractor performs the service required by the contract.
- Contractor sends the bill to the program office.
- Program manager certifies the voucher (ready for payment).
- Finance office cuts a check and inputs accounting data into the Marine Corps Expenditure Reporting Reimbursement System (MCERRS).
- MCERRS feeds into SABRS on a weekly cycle which transfers data to HAS to effect expenditure posting. Where disparities exist in the official accounting system (expenditures do not match the obligation records), files are created that suspend the expenditures until corrective action is taken.
- An unmatched disbursement exists when an expenditure is made but no obligation exists in the accounting system

to match up against. An undistributed disbursement exists when an obligation is made but no expenditure exists in the accounting system.

- DFAS administers corrective action to files. The DAO researches and processes the undistributed/unmatched disbursements for items whose original entry by the paying office was erroneous, thus causing the mismatch to the appropriate obligation recorded in the accounting system.

The expenditure reporting process is the means to finish the transaction cycle of individual purchases and orders. It removes the outstanding obligations and accounts payable from the financial records and is the true means of measuring budget execution. As a financial manager, the monitoring of expenditures is essential to overall fund control.

## **2. Mismatches**

Unmatched and undistributed disbursements have been a long-standing systemic problem and are generally a temporary condition. [Ref. 17] Unmatched disbursements, in and of themselves, are not evidence that payments were improper. To the contrary, most unmatched disbursements are matched with valid obligations. Many unmatched disbursements are already matched at, and have been identified to and reported against the proper contract, appropriation and program. Many such disbursements are unmatched only at a more detailed contract line item and/or detailed obligation line item level within the proper contract, appropriation and program. [Ref. 18]

## **3. Potential Errors**

The finance (formerly disbursing) office, now part of the DFAS network, inputs appropriation data to the official accounting system when an expenditure is made. This source entry starts the ball rolling in terms of posting to the appropriate ledgers. Potential errors may occur at this source, including human error. The accounting data may



contain errors as a result of manual entry to MCERRS; any errors identified by the system will be sent to a file that will be reconciled by accounting personnel. Resolution of inaccurate data in the accounting office could result in an allocation of data to an incorrect accounting line. If this happens, one program will show an overexpenditure while another will be underexpended. Often mismatches occur as a result of a culmination of a series of events. This issue and further sources of potential errors will be addressed in Chapter IV (Sources of Late Reporting).

#### **4. Finance Responsibilities**

Finance offices are required to ensure that payments are made only for goods and services authorized by purchase orders, contracts or other authorizing documents; the Government received and accepted the goods and services; and payment amounts are accurately computed. They are also responsible for ensuring that accounting data on payment supporting documents are complete and accurate. [Ref. 19]

#### **G. SUMMARY**

The expenditure delays experienced by the Marine Corps program managers will be explored in more detail starting with the next chapter which explains the current expenditure process. Accounting and finance initiatives throughout the Department of Defense contribute either directly or indirectly to improving the way in which transactions are recorded. Effective planning and budgeting for future programs relies on the ability to have up-to-date data on expenditures. The more delays that can be eliminated from the reporting process, the better the abilities of program managers at MARCORSYSCOM to make optimal decisions on their programs.



### **III. CURRENT PROCESSES**

#### **A. OVERVIEW**

This chapter explores the expenditure process by first looking at its parent, the budget process. Spending is discussed as well as the Biennial Planning, Programming and Budgeting System (BPPBS). The Marine Corps' expenditure process is then viewed from actions of Congress to the Corps' official accounting system where actual mismatches between obligations and expenditures are discovered, researched and corrected.

#### **B. THE BUDGET**

##### **1. Definition**

The budget provides a vehicle for communication between the cost centers and their reviewing authority. The budget submission process allows planners to inform higher levels in the chain of command of their goals and objectives for the coming fiscal period. It also provides reviewing authority with a yardstick or measuring device for reviewing cost center performance and evaluating the expertise of financial management during the fiscal period. [Ref. 20]

##### **2. Process**

According to the "Practical Comptrollership Manual" used in courses such as the "Practical Comptroller" and "Financial Management in the Armed Forces" taught at the Naval Postgraduate School in Monterey, Ca., the Federal budget process consists of three main phases:

1. Executive formulation and transmittal;
2. Congressional action;
3. Budget execution and control. [Ref. 21]

The ultimate goal of having any budget is to be able to plan how available resources will be spent.

## **C. SPENDING**

### **1. Reason**

It is by reason of Congress that any future-years defense plan prepared after the date of the enactment of the FY 1994 National Defense Act should be based on: 1) an objective assessment of United States' national security requirements and include funding proposals at a level capable of protecting and promoting the Nation's interests; and 2) financial integrity and accountability to ensure a fully funded defense program necessary to maintain a ready and capable force. [Ref. 22]

### **2. Authority**

The Fiscal Year 1991 National Defense Authorization Act is a law that authorizes appropriations for acquisition and other programs. To the extent provided in Appropriations Acts, the Secretary of Defense is authorized to expend for defense acquisition programs such sums as are necessary to carry out the next phase of the acquisition program cycle. This expense occurs after the Secretary determines that objective quantifiable performance expectations relating the execution of that phase have been identified. [Ref. 23] The plan used to further the process is the BPPBS, formerly the PPBS.

## **D. THE PLANNING, PROGRAMMING AND BUDGETING SYSTEM**

### **1. Early Emphasis**

In the early part of the century, the emphasis in the budget process was on the control of actual expenditures. Budget estimates were totals of expenses for items such as salaries, spare parts or office supplies. There was no functional or mission structure to classify cost. Reformers in the 1940's and 1950's shifted the emphasis in budget estimates to measuring performance. Performance measures of effectiveness were developed and the budget was based upon

functions, activities and projects. However, there was no systematic way to ensure that the budget supported the mission or plans of the DoD. As a result, when the budget changed hands or when new issues rose in popularity, objectives or planned courses of action changed also, destroying continuity from year to year. In the 1960's, Secretary of Defense Robert McNamara introduced a planning and programming cycle to the budget process. The cycle defined the forces and programs needed to support the national defense strategy. After the need was quantified, the most cost effective means of meeting the need could be established and included in the budget. The Planning, Programming and Budgeting System (PPBS) was a revolutionary change and introduced the concept of programming as a bridge between the already established functions of military planning and budgeting. The PPBS coordinates planning efforts at the national level of the civilian and military organization. It is principally concerned with the management of resources to meet strategic requirements. The PPBS translates force requirements developed by the military in the National Military Strategy Document (NMSD) into budgetary requirements which are then presented to Congress. [Ref. 24]

## **2. Phases**

The three phases of the PPBS process are defined. In the planning phase, the global threat is assessed and strategy to meet the threat is defined. The programming phase translates the strategic plans into programs defined in terms of forces, personnel, material and dollars. Lastly, the final phase of budgeting expresses the programs in terms of biennial funding requirements. It communicates the financial requirements necessary to support approved programs which were developed during the preceding phases of planning and programming. It is through the budget that planning and programming are translated into the annual funding criteria. The budgeting

phase consists of budget formulation and budget presentation and review. [Ref. 25]

### **3. Shortcomings**

The power of the purse is the most fundamental power of the legislative branch. Congress has acted from this position of strength since the U.S. Constitution was established. Government needs money to function, as does society. It does so through budget-making which is the essence of policy-making. In other words, the budget determines strategy. Military planners hold the budget process to be of utmost importance. They and others are concerned about our national defense and about the budget process being a challenge to reform. They believe that strategy should determine the budget. It is often the other way around since the real world emphasis on the here and now calls for attention to the immediate year's budget instead of long-range plans.

The National Performance Review asserts that we should not have to enact a budget every year. Annual budgets consume tremendous amounts of time by Congressional members and Government staff as well as serve to keep Congress' focus on the short-term immediate year's budget. If Congress can make the shift to a long-term planning view, a critical first step is to free them from the current year budget mentality and establish two-year budgets and appropriations. This approach would help abolish the tendency of Congress to look for quick fixes and to overreact to short-term conditions that can be a dangerous oversimplification in the ever-changing world of today. Establishment of two-year budgets and appropriations would not only enable Congress to be brought into the long-range planning cycle originally envisioned in the planning, programming and budgeting system (PPBS), but it would provide the military greater flexibility in dealing with the uncertainties to be faced in the new world order.

The major function of the PPBS budget process for military leadership is to translate defense major force programs into Congressional appropriations. Decisions made in the planning and programming phase of PPBS are related to force and mission programs. Congress, however, does not accept the major force programs as an approved budgeting entity. Instead, they hold to an artificial, historical appropriation structure that cuts across major force programs and establishes constraints designed to impose the will of Congress. The problems created by this approach are twofold - programs sometimes run into problems and there is little room for management flexibility in dealing with contingencies. For example, the Congressional committees may approve manpower in one appropriation and operations in another, and then deny funding for equipment. The result is that a military manager is given an incomplete program to execute. In addition to the restrictiveness of different appropriations, Congress divides appropriations into thousands of accounts and line items which further restrict how the money can be used. This greatly limits the military manager's flexibility in using funds for contingencies that arise during the year. As management tries to cope with these restrictions, the final outcome is 'broken' programs and waste. Managers find themselves spending money where they have it, rather than where they need it.

In short, new ways must be devised to ensure the military is funded in a manner that allows long-range focus on mission and maximum flexibility in reacting to the contingencies that will definitely arise. [Ref. 26]

#### **4. The Biennial Planning, Programming and Budgeting System**

##### **a. New Name**

The process has most recently been called BPPBS (Biennial Planning, Programming, and Budgeting System) and is

an iterative process involving the three separate management phases of planning, programming and budgeting. BPPBS is simply a decision-making process for allocating defense resources. [Ref. 27]

**b. Focus**

The BPPBS contrasts with the traditional budgeting process which preceded it, in two significant ways. First, it tends to focus less on the existing base and annual incremental improvements to it. Instead, its focus is more on objectives and purposes as well as the long-term alternative means for achieving them. As a result of this emphasis, planning has been elevated to a level on par with budgetary management and control. Secondly, the system brings together planning and budgeting by means of programming, a process which essentially defines a procedure for distributing available resources equitably among the many competing or possible programs. [Ref. 28] In BPPBS, however, the budget is developed every other year, but Congress acts on annual budgets. In the off-years, changes to the original cycle are analyzed and worked into a revised budget. [Ref. 29]

**c. Goal**

The Biennial Planning, Programming and Budgeting System (BPPBS) can be summarized in a few words. Based on the anticipated threat, a strategy is developed. Requirements of the strategy are then estimated and programs are developed to package and execute the strategy. Finally, the costs of approved programs are budgeted in the following sequence: threat, strategy, requirements, programs and budget. The goal of the BPPBS is to arrive at the most effective allocation of resources to accomplish our national defense objectives. In other words, the ultimate objective of this process is to provide operational commanders with the best mix of forces, equipment and support attainable within fiscal constraints. [Ref. 30]



Each of the Services, through DFAS, has the responsibility of tracking all funds, and does so with its accounting systems.

## **E. MARINE CORPS ACCOUNTING SYSTEMS**

### **1. The Standard Accounting Reporting and Budgeting System**

#### **a. Responsibility**

The Defense Finance and Accounting Service (DFAS) was chartered as the accounting firm for DoD in 1991. It has functional responsibility for DoD finance and accounting policies, procedures, standards, systems and operations. Each Service is provided finance and accounting support through a primary service center of DFAS. For the Marine Corps, this service center is located in Kansas City. DFAS Kansas City Center owns and controls the accounting system called SABRS (Standard Accounting Reporting and Budgeting System) that is utilized for recording and reporting the execution of the operations and maintenance (O&M) appropriations. It produces the documentation examined to determine expenditure reporting in relation to obligations for these O&M funds. DFAS Kansas City Center is responsible for the monthly reporting of accounting information affecting the Marine Corps. DFAS is also tasked with the processing and posting of liquidations or payments that affect the operations and maintenance appropriations.

#### **b. Role**

SABRS is a financial accounting system that is designed to standardize accounting procedures throughout the Marine Corps for all units (Headquarters, Marine Corps (HQMC), posts and stations, fleet Marine forces, recruiting districts and reserve activities). It is also designed to marry-up budget formulation data with budget execution information. Elements and coding fields used in formulation are also utilized in execution to tie the actual amounts back with

authorized and budgeted amounts. SABRS maintains information on documents and transactions that have occurred and that have been entered and posted in the system. Documents and transactions are processed through manual input of information or through mechanized input from other systems. Utilizing information resident in the system, SABRS has the capability of producing numerous reports. These reports are produced based on a cycle, weekly run, bi-weekly run, monthly, quarterly and an annual basis. Reports are produced reflecting information from all spending subsystems and most of the supporting subsystems. Two relevant categories for reporting are budget execution and expenditures and collections.

### ***c. Subsystems***

Two of SABRES' thirteen subsystems are designed for budget formulation and budget execution. The budget formulation subsystem is utilized to form initial funding requests to HQMC. The subsystem is designed around a financial information pointer (FIP), which is the SABRS key to match execution information back with budget formulation data. The FIP classifies the type of funds used and the purpose for which funds were executed. Through the proper assignment and use of FIPs, users and managers can determine: operating budget (OPBUD) or major activity using funds, appropriation and subhead charged, program element category that funds were used under, category of expense that funds were used for, purpose that funds were executed, and the internal unit that spent funds. Funding is requested by the command/OPBUD or can be requested at the fund administrator level. Information recorded in the formulation subsystem can be moved to the execution subsystem to create a base-line for execution comparison and monitoring. The budget execution subsystem is utilized to pass authority received by HQMC or major OPBUD to commands' fund administrators and work centers. This subsystem is also used to create reimbursable authorization profiles

in the system. Further, this subsystem is used in recording work unit information for cost accounting purposes.

**d. Classification Codes**

The accounting classification code was created as a means of standardizing accounting information for reporting execution information to internal and external managers. The code is especially important for disbursing activities. It reflects information that identifies Marine Corps funds used when payments are posted at the United States Treasury. Essentially, the accounting classification is the checking account number at the Treasury. By proper use of the accounting classification code, internal Marine Corps users and external agencies can determine the DoD department that is using the funds, the specific appropriation granted by Congress that is being charged, and the major budget program and sub-program for which funds were executed. They can also determine the major activity or OPBUD that executed the funds, the activity responsible for the official accounting of the executed transaction and the type or category of payment made for the transaction.

**e. Payment Processing**

Most payments are processed into SABRS through various mechanized interfaces with external disbursing or payment systems. The key for payment posting in SABRS is the document number. If the incoming payment record processing into SABRS does not find a matching obligation document number resident in the travel or material and services files, the payment goes into an unmatched status. Unmatched payments have already been charged against the OPBUD for distribution purposes. Payments may go into an unmatched status for the following reasons: incoming payment record is valid in all respects (to include cited document number), but no matching obligation was ever entered into SABRS); an obligation is resident in SABRS under a different document number than that

cited in the incoming payment record; or the incoming payment is not valid for charge against the command. The local Defense Accounting Office (DAO) will attempt to post these payments based on information in the electronic payment record or available source documents. However, many payments will not have enough information available for the DAO to accurately post the payment in SABRS. In those cases, the DAO will solicit help from the appropriate comptroller's office to determine which record the payment should be posted against. If the payment is determined to be erroneous by the comptroller, the DAO should be informed to take corrective action. [Ref. 31]

To update expenditure information, SABRS currently has an interface that feeds into the Headquarters Accounting System (HAS). Unfortunately, SABRS is not a real-time system.

## **2. Headquarters Accounting System**

The Headquarters Accounting System (HAS) is owned by DFAS and used by the Marine Corps. It receives information from SABRS and was designed to replace several previous systems that accounted for expenditures and other accounting transactions. HAS produces the documentation examined to determine expenditure reporting in relation to obligations for Marine Corps procurement (PMC) and research and development funds (R&D) and provides a summary of field transactions. It has the capability to generate accounting reports that identify balances and provide information concerning the destination of funds spent. Reports are categorized as internal, local or external. When a legally binding document is generated, the HAS uses a document identifier code (DIC) to record that entry with the appropriation granted in the authority document. Funds can only be obligated for the purpose of the appropriation for which they were granted. To input expenditures, HAS

uses DICs to accomplish the posting of those transactions.  
[Ref. 32]

One drawback of HAS is that it has a tendency to frustrate its users. It contains few edits to keep unwanted entries out of the system. In addition, it is not scheduled to be upgraded by DFAS since the Marine Corps accounting transactions will be performed by one unified system in the future, instead of the current collection of systems (SABRS, HAS, etc.). This will be discussed in Chapter VI (Solutions). For now, the expenditure process must go on in its current state.

## **F. MARINE CORPS EXPENDITURE PROCESS**

### **1. Details**

The flow of accounting data must go through the program management/project office, contracting office, finance office, DFAS system and the DFAS accounting office (DAO). The actual flow of accounting data is listed below.

#### **Planning:**

- Congress passes authorization laws that approve programs and recommend funding.
- Congress enacts appropriation laws that allow Government agencies to spend the money.
- The Marine Corps commits or allocates funds to specific programs. Program offices are provided documents that identify the amounts of funds authorized for specific programs.
- Program office issues request for procurement.

#### **Contracting Actions:**

- Contracting office awards a contract (funds get obligated). Obligation also occurs when one Service officially accepts funds to procure items for another Service.
- Contractor performs the service required by the contract.

- Contractor sends the bill to the program office.

#### Payment and Reporting:

- Program manager certifies the voucher (ready for payment).
- The DFAS finance office disburses payment to a contractor for the materials or services received and inputs accounting data into the Marine Corps Expenditure Reporting Reimbursement System (MCERRS). At this point an expenditure is made. Once DFAS has posted the expenditure to the accounting system, a debit is drawn against the obligated funds. [Ref. 33]

#### Errors and Reconciliation:

- MCERRS feeds into SABRS on a weekly cycle which transfers data eventually to HAS to post the expenditures. Where disparities exist in the official accounting system (expenditures do not match the obligation records), files are created that suspend the expenditures until corrective action is taken.
- An unmatched disbursement exists when an expenditure is made but no obligation exists in the accounting system to match up against. An undistributed disbursement exists when an obligation is made but no expenditure exists in the accounting system.
- DFAS administers corrective action to files. The DAO researches and processes the undistributed/unmatched disbursements for items whose original entry by the paying office was erroneous, thus causing the mismatch to the appropriate obligation recorded in the accounting system.

## **2. Assurance**

To ensure expeditious obligation of funds, OSD establishes obligation goals for the Services. For example, procurement funding, which must be obligated in three years is sought to be 85 percent, 94 percent and 100 percent obligated during the first, second and third years of fund availability, respectively. The expenditure reporting process is the means to finish the transaction cycle of individual purchases and orders. It removes the outstanding obligations and accounts

payable from the financial records and is the true means of measuring budget execution. The average rate of expenditures to obligations is 68 percent for MARCORSYSCOM. In the case of travel expenditures, the fund administrator must obligate the funds for a trip before any advance payment (expenditure) is made for those funds. The accounting system will automatically post any mismatch between the obligations and expenditures to the unmatched disbursement file. As a financial manager, the monitoring of expenditures is essential to determine expenditure rates and to overall fund control. It must be kept in mind, however, that since the expenditure is at the end of a chain of events, any mistake made early on can be perpetuated throughout the life of an accounting entry. The process is based on many hard copy documents which are copied, distributed and repetitively entered into multiple systems and databases that are not completely interfaced. The official accounting system uses Service unique systems such as SABRS and HAS to accomplish the posting of transactions. But, program managers have developed their own off-line unofficial management information systems to account for expenditures since the official ones have been found to be unresponsive to their needs.

### **3. Excessive Delays**

Depending on which part of the expenditure reporting process one examines, excessive delay time can range from over 30 days to several years. In fact, as of December 1994, the program manager of Engineer Systems at MARCORSYSCOM, has expenditures dating back to fiscal year 1988 that have not been properly reported. The DFAS accounting records (SABRS) show expenditures reported for which HAS does not yet show the posted entry. Attempts to correct the problem have been unsuccessful. To post entries into the correct location, SABRS has a weekly update cycle. However, the system only updates data that have been correctly entered.

It is reasonable to expect that contractors will bill the Government after delivery of their product or service. When budget analysts notice that payments have not been made (expenditures have not yet been posted), they follow up with the executor of the funds to investigate any possible delay. A search is made to find the transaction in the official accounting system. Data collected is filed and then used to defend the expenditures during budget and program reviews.

#### **G. SUMMARY**

The Marine Corps expenditure process is a long one, especially when considering it in light of the budget process. As we have seen, an expenditure must go through multiple actions and systems before it completes the entire cycle. Therein lies the opportunity for errors and perpetuation of those errors. Incorrect lines of data on a document, for example, may cause delays in the expenditure reporting process. In cases where cross disbursements are involved, this problem is amplified. The next chapter (Sources of Late Reporting) will explore possible sources of late reporting that cause errors.



#### IV. SOURCES OF LATE REPORTING

##### A. OVERVIEW

This chapter investigates the sources of late reporting that cause delays in expenditure reporting for Marine Corps programs. It does so by first discussing general reporting requirements. Next, the chapter analyzes Marine Corps findings. The findings are assembled into four primary categories. These categories include the sources of errors, types of errors, situations that lend themselves to errors and reconciliation. Cross disbursements are addressed as well as how the reconciliation of errors itself can cause delays. Finally, this chapter discusses similar findings in the Navy. Although the focus of this study is on Marine Corps expenditure reporting, the fact that Navy findings are similar suggests a larger, DoD-wide problem.

##### B. REPORTING REQUIREMENTS

The Department of the Navy publishes financial information reporting requirements for the Navy and Marine Corps in the Navy Comptroller Manual. Upon approval of firm procurement directives, orders, requisitions or requests by the funding authority, funds are then obligated, an order is placed and a contract is awarded. It is known then that a future disbursement of funds will occur. The Navy Comptroller Manual requires that the accuracy of accounting data be maintained during processing. Even with requirements established, processing center personnel sometimes enter incomplete and inaccurate information into the reporting system. As a result, data in the system contains errors which create unmatched disbursements. [Ref. 34] Processing centers face a large volume of transactions that must be reported each month. The process does not allow personnel to adequately research and correct all errors. [Ref. 35]

The next section will discuss Marine Corps findings in relation to expenditure reporting.

### **C. MARINE CORPS FINDINGS**

The four primary categories of findings to be discussed are the sources of errors, types of errors, the situations that lend themselves to errors and reconciliation - all of which cause delays in expenditure reporting. The researcher has compiled and categorized data from a multitude of interviews.

#### **1. Sources of errors**

This category collects a number of elements where sources of errors originate during expenditure reporting.

##### **a. Training**

Knowledge and experience of data input personnel is needed throughout the expenditure reporting process. Findings concerning training include:

- Lack of training about types of appropriations for the data entry clerks at the DAO.
- Lack of experience to know where to look when working an unmatched disbursements list - knowing something about accounting, not just keypunching.
- Lower grades without a detailed knowledge of accounting used.
- Personnel not familiar with appropriation numbers while inputting payment information into MCERRS.
- Inadequate training programs for personnel in every phase of the process, starting with the issuance and administration of funds and ending with recording and registration of a payment.
- The above problems are exacerbated by personnel changes.

### **b. Communication**

All stakeholders are involved with a process that is in desperate need of continuous communication, both human and system related. These findings include:

- Lack of awareness about how actions of one system or office impacts other functions and systems (e.g., accounting, budgeting, comptroller, supply and contracting).
- Lack of timely communication of information among program managers/project officers, DoD contracting offices, contractors, finance offices and accounting offices.
- Accounting system records being corrected without notification to concerned offices.
- Offices handling a voucher not knowing what other offices are doing, with no incentive to correct this situation. Offices include finance, accounting, program offices and contracting offices.
- Lack of coordination among offices listed above.

### **c. Bureaucracy**

Although the initial intent of financial management regulations had merit, it is necessary that they be revalidated to better serve the users and overcome their obsolescence. These findings include:

- Separation of duties/functions causing too many spokes in the wheel - accounting cannot perform budgeting tasks and vice versa.
- Too many layers of bureaucracy in the funding process.
- Complicated ambiguous regulations.
- Too many hands touching a document.
- Redundant controls and routing procedures.
- Multiple paying offices - Quantico DAO, Henderson Hall (HQMC) DAO, Albany DAO and DFAS Cleveland paying office to name a few. When an outlying DAO makes a payment,

MARCORSYSCOM accounting does not get timely payment verification.

As the process of contracting is pursued, appropriation data are entered into the accounting system many times. They are also entered when funds are obligated and subsequently billed. Expenditures may be charged against an obligation. However, at every layer of the process, the chance of being either transposed or inaccurate increases each time a line of accounting data is typed. Problems are caused by repetitive manual data entry in various systems. Also, separate databases and locations of various stakeholder offices contribute to delays. One office can make corrections or adjustments to records without notifying other stakeholders of those changes. [Ref. 36]

#### **d. Fund Administration**

The key to providing successful fund administration is giving attention to detail with all documentation. For example, if an obligation is never created but an expenditure is processed, a delay will occur until the files are reconciled. Findings in the area of fund administration include:

- Insufficient funding available against accounting classification reference numbers.
- Insufficient documentation to support payment data.
- Poor administration of funds management in general, and specifically, fund administrators not reserving documents in SABRS. This causes an error and requires research.
- No obligation files (funding) created at the user's level which causes an unmatched disbursement later.

#### **e. Contractors**

Before an expenditure is even made, contractors have a set of responsibilities which require action. Expenditures

will not be made until all administrative issues are resolved. Contractor related issues include:

- Delivery delayed because it took longer than had been originally projected.
- The contractors have simply not billed the Marine Corps yet.
- Incorrect mailing address provided on contract.
- Contractors move without giving new payment address or phone number.
- Contractors do not provide the bill (or portions of the total bill) because they: failed Government acceptance tests; died; or delayed installation of a product or service.

**f. Manpower**

Manual duplication of effort in a paper-rich environment is extremely inefficient and labor intensive. As such, errors occur in the process. Manpower findings include:

- Large backlogs of work.
- Manpower shortages.
- Expanding workloads.
- Too much manual effort taking place.
- Program managers having to maintain an in house off-line expenditure reporting system that relies on forwarded documentation and requires additional manpower.

**g. Miscellaneous**

All stakeholders in the expenditure reporting process have a role to play. They must be responsible for their part of the process and be aware of their contribution to the end product - that of posting expenditures correctly. Miscellaneous findings that relate to this awareness include:

- Lack of command attention concerning expenditure reporting.
- Unreliable data.
- Contract modifications not incorporated in a timely or accurate fashion.
- Slow processing of invoices due to missing inspector or receiver reports.
- Untimely or erroneous distribution of documents.
- Lack of project officer follow-through once contracts are awarded.

## **2. Types of Errors**

This category assembles a number of elements in terms of the types of errors that occur in expenditure reporting. As errors are made under various circumstances, they take on characteristics that can be sorted by similar attributes such as human error or those relating to appropriation data.

### **a. Manual**

All systems that require human interface are subject to the problems inherent with human error. A data error initiated at the front of the process will stay inside the system until discovered and reconciled. Findings associated with manual errors include:

- Data entry errors.
- Key punch errors.
- Wrong or missing appropriation on a voucher.
- Wrong year or any digit wrong and, therefore, potentially charged to an incorrect account.
- Generator of the voucher typing incorrect appropriation numbers.
- A '+' instead of a '-'.

- Wrong accounting classification reference numbers (ACRN) on the initial entry to the system or on a manual override.
- Incorrect funding document numbers.
- Missing information.
- Document number in wrong location on a voucher.
- Transposition of numbers.
- Fatigue.
- Clerks under pressure to comply with Prompt Pay procedures.

#### **b. Multiple Line Vouchers**

An excessive number of long lines of accounting data increases the probability of input errors. [Ref. 37] For a multiple line entry on a voucher (e.g., five to ten items), all items may be incorrectly charged to the first line of accounting data. That particular account then becomes overexpended since it was not obligated to fulfill all other entries on the voucher. Remaining lines of accounting data on the voucher then become underexpended since they were obligated, but now, not expended.

#### **c. Appropriation**

At either the initial data input or at a reconciliation of files, judgment is applied to provide the necessary information. Appropriation data must be precise to register correctly in the system. These appropriation findings include:

- Appropriation mismatches.
- Entries made without researching the correct appropriation or not knowing what to research (arbitrary reallocation).
- Forcing (jamming) entries into the system.

- Incorrect selection of appropriate contract data elements.
- The unavailability of expenditure input sources (copies of vouchers).

#### **d. Slow/Duplicate Payments**

Slow or nonpayment of an invoice is a violation of the Prompt Pay Act and will delay expenditure posting until payment is actually made. Findings in this area include:

- Invoices sent to wrong office prior to payment.
- Project office not sure where to send the voucher for payment.
- Receiving DD250s (vouchers) late for payment (physically paid later) due to a lack of signatures on vouchers (improper certification) that would verify that the products or services were delivered.
- Duplicate contract payments.

### **3. Situations**

This category gathers those situational elements that lend themselves to errors in the expenditure reporting process.

#### **a. General**

When an expenditure does not match the obligation record, it is suspended until corrective action is taken - a process that can last several months. Once data are incorrect in the system, they stay that way until corrected. This problem is then perpetuated during interface between various systems. Another situation includes the flow of data. When the flow of data is interrupted for any reason, delays inevitably occur. Also, anytime the program manager is out of the paperwork loop, the possibility exists for an eventual interruption in the reporting process. For example, this situation exists when a program manager is not afforded the opportunity to certify a payment document.



### **b. Accounting Systems**

Interface problems arise when a series of subsystems are pieced together, such as in the case of SABRS. All system-dependent causes are amplified and complicated by the lack of a standard electronic data interchange system between all stakeholders. Findings related to the current accounting system include:

- Systems design.
- Lack of coding and system uniformity.
- Lack of interface between MCERRS and SABRS when mismatches or payments are reconciled.
- The inherent delay of MCERRS feeding into SABRS and then into HAS.
- Delays in posting to SABRS due to incorrect matching of expenditures to obligations.
- Incompatibility of accounting systems.
- Lack of integration.
- Current finance and accounting system structures not fully compatible with program managers/project officers, procurement or contract management needs.
- Mechanized matching and payment process.

### **c. Standardization**

All offices in the expenditure reporting process do not operate in the same manner with regard to documentation and procedures. For example, each office or functional entity assigns a different reference number to the same document. Further findings involved with standardization include:

- Lack of uniform contract format and structure.
- Lack of standardized document reference numbers.
- Lack of standardized payment procedures for transportation costs.

#### **d. Types of Contracts**

In addition to other circumstances, there are contractual situations which lead to expenditure reporting delays. Some of the contractual situations include:

- Value engineering change proposals.
- Negotiated contracts fee for a cost-plus-incentive-fee (CPIF) contract involving incentive fee payments or contingent liabilities payments.
- A cost-plus contract when costs are increasing. When payments are made funds are not obligated and, therefore, are considered overpaid. The user of the funds does not have funds available yet or has not updated the records to show them as available.
- Joint Service contracts - the posting activity will expend funds in sequential order on a contract, not post bills against the responsible Service. For example, DFAS may post against an Army funding first; the Marine Corps receives a deliverable but shows no expenditures made yet since it is designated as an Army transaction. This situation sets the stage for a NAVCOMPT mark.

#### **e. Cross Disbursements**

A cross disbursement occurs when one Service procures materials or services from another Service and is charged for them. It is often accomplished to consolidate the buys of several Services or to use another Service's existing contract. Expenditures for these procurements are input at other than USMC activities. [Ref. 38] When this occurs, a smooth flow of data across the Services' expenditure systems is precluded by incompatible systems. Other Services accept Marine Corps funding documents as a reimbursable (category I). They cite Marine Corps accounting data on the contract and later charge the Marine Corps for their portion. This acceptance is obligated immediately, but workload and priorities of aged events can delay the posting of expendi-

tures into the Headquarters Accounting System (HAS) for as often as one to two years after delivery of items. [Ref. 39]

In cases where the finance and accounting office belong to different Services, the electronic disbursement notification records and paper vouchers are routed through the cross disbursing process. They are transferred to the DFAS center responsible for the Services' accounting of the cited funds. The passing of data among DFAS centers causes delays because each center has unique accounting data elements. There is a lack of emphasis and accountability from one Service to another within DoD; one Service is not answerable to another Service. The cross disbursement process is very slow and requires manual comparison of automated transaction listings with hard copy vouchers. The usual time for disbursement transactions to get to the accountable station for the initial match to the obligation records is four to six months. This process must be used since there is no standard electronic format for reporting disbursements within the DoD. To date, a standard disbursement notification record has not been developed because of the differences in the accounting line structures among the Services. There are no standards in place to streamline data exchange among the Services' systems. [Ref. 40] Appropriation formats and accounting codes differ from Service to Service, which can result in a mismatch among Services - some overexpended and some underexpended. All of this may be further complicated by each Service's layers of command structure. Responses from various interviewees indicate that cross disbursement transactions require 90 to 120 days to distribute and post to an unliquidated obligation record when an erroneous line accounting data has been entered.

When processing cross disbursements a choke point occurs when a transaction does not clear through the process. For

one reason or another (perhaps an erroneous line of appropriation data), the entry is snagged for correction and does not get filtered down (posted to the HAS) to the appropriate financial personnel for action. A further administrative burden is imposed as hard copy contracts must be integrated and manually entered into both contract management and accounting systems. [Ref. 41] There is no doubt that self-paid (inter-Service) transactions are generally more accurate and timely than transactions involving other Services.

#### **4. Reconciliation**

When there is no match between MCERRS and SABRS, a disbursement notification record (DNR) is created for corrective action. Reconciling errors usually takes two to three months after receipt of the notification from disbursing. [Ref. 42] According to budget analysts, it takes more manpower to reconcile expenditures than it would to input data correctly the first time. Reconciling errors itself extends the delay time. Differences in data from various systems must be reconciled on a regular basis and requires extensive identification and correction effort. The responsible DFAS office making payments must correctly and expeditiously register the payments into the official accounting system. [Ref. 43] Findings discovered during the reconciliation process include:

- Not enough time to adequately research problems.
- Not enough checks and balances to catch potential disparity errors.
- Known errors not corrected in a timely manner.
- Limited resources available to reconcile final bills with progress payments.
- Correction of errors in the HAS.

- Recoupment of progress payments.
- Uncleared unmatched disbursement files.
- Manual efforts required to correct a mismatch caused by an incorrect ACRN.

The Navy and Marine Corps share similar findings in relation to expenditure reporting delays. Both Services have problems with erroneous data entries, arbitrary reallocations of funds, correctly matching obligations and expenditures and communication among the stakeholders.

#### **D. NAVY OBSERVATIONS**

The Navy has had a long-standing systemic problem with unmatched disbursements during expenditure reporting. They significantly impair the Navy's ability to ensure that funds are safeguarded and spent in accordance with legal requirements. [Ref. 44] There is a need for more emphasis to resolve unmatched disbursements as well as post accurate and complete accounting information in systems that support the disbursement process.

When a contract is awarded, contract data, including the funding organization's lines of accounting data, are keyed into an accounting system. Each line of accounting on a contract represents a separate obligation of a funding organization's resources. In contracts for major weapon systems, numerous lines of accounting may be annotated on one contract. When a disbursing office receives an invoice for a progress or final payment (an expenditure), it should cite the appropriate lines of accounting data from the applicable contract. It is incumbent upon the contractor, administrative contracting officer, or program manager to provide this information. If the detailed line of accounting data available to the disbursing officer is not precisely the same as the detailed obligation data shown on the contract for the

item, a disbursement made in complete conformance with contract requirements may not match the related obligation. An unmatched disbursement most likely will result. This situation does not mean that funds were not obligated, but rather that additional effort is required to match the disbursements to the related obligation. [Ref. 45]

Accounting personnel often resolve unmatched disbursements using methods that offer little assurance of accuracy. Instead of specifically determining the cause, one technique for matching disbursements is to judgmentally reallocate funds from an accounting classification reference number (ACRN), which has sufficient funds, to an ACRN with insufficient funds. When personnel do not have or do not request disbursement and contract information, this technique is employed. Also, personnel consider the time required to research and properly correct the erroneous conditions excessive. Matching is often a labor-intensive effort. Some contracts have so many ACRNs with erroneous obligation and disbursement totals that the contracts have to be completely reconciled before specific unmatched disbursements can be properly matched to the proper obligations. These arbitrary allocations can actually cause additional unmatched disbursements. Often, the contract ACRN is used to record the obligation in the accounting system. Paying offices may, occasionally report expenditures under the reference ACRN instead of the contract ACRN, causing unmatched disbursements. Without adequate training, it is unreasonable to expect pay office technicians to recognize the difference between reference ACRN and contract ACRNs. [Ref. 46]

In its report on June 9, 1993 to Admiral Frank B. Kelso, Acting Secretary of the Navy, the General Accounting Office (GAO) found instances where Navy personnel arbitrarily matched obligations and disbursements. Since such practices cause additional unmatched disbursements, they perpetuate and

exacerbate existing problems caused by unmatched disbursements. The Navy's failure to properly match all disbursements with related obligations creates a weak control environment which increases the risk that funds may be spent in violation of the limitations specified by the Congress, and that fraudulent or erroneous payments may occur and not be detected. [Ref. 47]

Errors occur when documents are not distributed quickly, when contracts do not cite the original procurement request, or later, if a receipt and acceptance document does not cite a correct contract number, line item or funding. [Ref. 48]

The resolution and prevention of unmatched disbursements is complicated by inadequate communication. For example, the lack of standard systems to transmit data electronically among financial and nonfinancial systems and organizations exacerbates delays in processing expenditures. The last major cause of unmatched disbursements for the Navy is simply the lack of timely and accurate communication among and between program offices, DoD contracting and contract administration offices, contractors, accounting offices, disbursing offices and other stakeholders. [Ref. 49]

## **E. SUMMARY**

The posting of an expenditure itself may take up to six months, due to manpower shortages, lack of training or communication, manual errors or the accounting system. If errors are made in the process, it can take several years to actually post an expenditure after corrective action has taken place. Upon introduction to the accounting system, timely and accurate entries should post immediately. Observation and experience suggest that the root causes of unmatched disbursements are incomplete or inaccurate data within the system and the lack of timely communication of information among all

stakeholders. [Ref. 50] This chapter discussed Marine Corps findings in detail, encompassing sources of errors, types of errors, situations and reconciliation. The subject of cross disbursements was discussed as well as similar findings in the Navy; they suggest a larger, DoD challenge to integrate accounting systems. In the meantime, the Marine Corps, as part of the DoD, must deal with the consequences of a faulty expenditure reporting system; the next chapter (Consequences) will address that specific concern.



## **V. CONSEQUENCES**

### **A. OVERVIEW**

This chapter points out the unfavorable consequences of late expenditure reporting for program managers at MARCORSYSCOM. First, it discusses the importance of tracking expenditures. It emphasizes that without a control tool to track expenditures, program managers lack the ability to effectively manage a program's advancement. Accurate matching of obligations and expenditures is required to help ensure funds are spent in accordance with legal limits. If the destination of program funds is not clear, arbitrary reallocations of appropriation data during reconciliation may occur; this is unacceptable. Secondly, the chapter addresses how cross disbursements among Services affect the expenditure reporting process. Next, the chapter addresses the manual efforts involved with reconciliation and memorandum accounting when tracking expenditures. The chapter further discusses potential funding jeopardy to programs as a result of late expenditure reporting. Finally, the chapter discusses the credibility of major stakeholders with respect to expenditure validation.

### **B. CONTROLS**

#### **1. Program Execution**

An expenditure is a satisfaction of an obligation through the disbursement of funds from the U.S. Treasury; it serves to represent actual payment for goods and services and occurs when payment is made to contractors. A budget is a plan of operation for a fiscal period that is expressed in expenditures and other financial terms. As a consequence of late expenditure reporting, acquisition programs at MARCORSYSCOM take hits for poor budget execution. When budget analysts observe expenditures for a program that are not accurately and

completely posted to the accounting system, they often conclude that the program's plan of operation has not been executed in accordance with its budget. [Ref. 51] As payments by the Defense Finance and Accounting Service (DFAS) are disbursed to contractors, they are entered into the accounting system as expenditures. Poor execution is often a problem of poor accounting versus poor management of the expenditures themselves. Project officers or program managers lack full control of a program's advancement without knowing the correct amount of total expenditures made. Tracking expenditures more efficiently can provide managers with the tool to take meaningful corrective action when it is discovered that expenditures have not been posted against obligations.

## **2. Matching**

As discussed in Chapter III (Current Processes), expenditures are matched with recorded obligations. When an expenditure does not match up with an existing obligation, this disparity is called an unmatched disbursement. The proper matching of expenditures with recorded obligations is an important control. It ensures that program funds are spent in accordance with the purposes and limitations specified by the Congress. Without correct matching, programs incur a substantial risk of making fraudulent or erroneous payments without being detected. Matching expenditures with obligations also detects cumulative amounts of disbursements that might exceed appropriation and other legal limits. [Ref. 52] Unless the accounting system promptly matches the disbursements with related obligations, program managers lack assurance that overpayments or other improper payments have not occurred. Untimely matching of expenditures for cross disbursements is also a consequence of late expenditure reporting.

### C. CROSS DISBURSEMENTS

As discussed in Chapter IV (Sources of Late Reporting), a cross disbursement occurs when one Service procures materials or services from another Service and is charged for them. It is often accomplished to consolidate the buys of several Services or to use another Service's existing contract. Expenditures for these procurements are input at other than USMC activities. [Ref. 53] If the input of expenditure data from the procuring Service does not include complete appropriation data, the DFAS accounting system may not be able to correctly match the information with the receiving Service. In this case, manual action is required to provide the necessary information. Unless the procuring Service takes this action to enter the cross disbursement expenditure into the system, the expenditure data will not appear against the unliquidated obligations outstanding on the receiving Service's account. Consequently, errors result when the accounting system does not recognize which account to apply expenditures against. After each system update, these expenditures are placed into error files, and reside there until the accountants examine and reconcile them into the correct accounts. During the time these expenditures reside in the error files, they are suspended and unable to reduce unliquidated obligations. To date, no incentive exists to correct cross disbursement errors; the delay created is allowed to linger. [Ref. 54] When reimbursable funds are involved, the slow rate at which expenditures are recorded can mislead the grantor of funds to believe that the receiver is not spending the funds effectively. In this situation, the receiver of the funds may have difficulty justifying amounts needed in the future for similar goods or services. [Ref. 55] Manual efforts are required to defend pro-

grams when normal accounting sources cannot provide the needed information.

#### **D. MANUAL EFFORTS**

##### **1. Memorandum Accounting**

The two general methods of reconciling expenditures (automation and manual effort) create an expensive duplication of effort for everyone concerned. For reasons addressed in Chapter Four (Sources of Late Reporting), the expenditure reporting process is sometimes delayed. As monies are obligated and expended, program managers do not always have current evidence of the expenditures in the automated Headquarters Accounting System (HAS). Instead, they have resorted to an alternative means to collect pertinent expenditure data. This method is called memorandum accounting. Program managers realize that for their programs to survive, they must use this inefficient means to collect expenditure data. One example of an alternative means of memorandum accounting is the automated funding document management system (AFDMS) used by program offices to supplement (back-up) the official accounting system. To track down copies of vouchers containing expenditure data, project officers physically and telephonically conduct manual searches. The information is then shown to budget analysts to prove that expenditures were made. This is very time consuming and manpower intensive. Retrieval of hard copied vouchers and other documentation is difficult, if not, impossible to produce. According to various opinions of interviewees, there is a potential danger in using these alternative means to account for expenditures. If memorandum accounting is used in addition to the official accounting system, the danger is that some double counting may occur. For example, budget analysts may be shown the hard copied vouchers as evidence that expenditures have been made. In the meantime, the automated accounting system may post those

expenditures, thus creating the potential for double counting them. Since obligations only correspond to one set of expenditures, there is the appearance of overspending program funds for the expenditures that were double counted. [Ref. 56]

## **2. Reconciliation**

A multiple item voucher is one which contains more than one line of accounting data and represents several appropriations. When an item of accounting data is the first entry on a multiple item voucher and is charged for the whole voucher, its account becomes overexpended and the other items of the voucher underexpended. This situation also exists with a voucher citing appropriations from multiple Services. Arbitrary reallocations of these appropriations, as discussed in Chapter IV (Sources of Late Reporting), are intended to correct the problem. Instead they perpetuate, and may exacerbate, rather than resolve the problems caused by unmatched disbursements. The consequence to program managers is a lack of assurance that funds have been spent in accordance with the purposes and limitations specified by the Congress. In addition, there is an increased risk that erroneous and fraudulent payments may occur and not be detected. [Ref. 57] When disbursements are arbitrarily allocated against accounting classification reference numbers (ACRNs) on a single contract, risk of violating statutory restrictions on using appropriations is increased. [Ref. 58]

Unnecessary manual efforts have become the norm for accounting offices. In fact, the Headquarters Marine Corps Defense Accounting Office (DAO) spends 65 to 75 percent of its time researching and processing undistributed and unmatched disbursements (expenditures) that do not match the appropriate obligations recorded in the accounting system.

[Ref. 59] Disparities result from erroneous data input that may inevitably put a program's funds in jeopardy.

## **E. PROGRAM JEOPARDY**

### **1. General**

The Congress sets aside a certain amount of funds each year to be used for procurement programs. In fiscal year 1994, the Congress authorized a total of \$483,621,000 to be appropriated for all Marine Corps procurement programs. [Ref. 60] Program managers have the responsibility to execute program funds in accordance with the programs' budget plans. Budget execution is the process of carrying out programs using appropriated funds. [Ref. 61] If proper execution is not conducted, programs are put in jeopardy and may face forfeiture of some or all of their appropriated funds. As funds are forfeited, programs risk schedule slippages or simply suspend further progress. In the Marine Corps, the Headquarters Accounting System (HAS) was developed to account for and manage procurement appropriations. It was designed to provide a summary of transactions from Marine Corps field operations. As discussed in Chapter III (Current Processes), the HAS accounts for expenditures and other accounting transactions. For example, a program may have its funds completely obligated. The HAS, however, may show only partial expenditures actually made - for reasons addressed in Chapter IV (Sources of Late Reporting). As a consequence of this continuing disparity, the Marine Corps receives a mark (written proposal) each year against the procurement appropriation. Poor execution is perceived as a result of poor expenditure reporting. [Ref. 62] A worst case scenario could result in the total elimination of a program.

## **2. Budget Cuts**

When expenditures are not shown as being expended against existing program obligations, the obligations are then said to be unliquidated. As a result, programs may lose their associated funding. When NAVCOMPT or OSD cut funding, they tend to cut future year funding (out-years). On the other hand, Congress tends to cut the current year's resources. Program managers realize that funding action taken in the current year may effect subsequent years' budgets. A mark is a proposed adjustment to a program's budget during the budget review process. [Ref. 63] When Congress, DoD, or the Navy Comptroller (NAVCOMPT) budget analysts observe programs with large unliquidated obligations, they may propose marks against them to reduce or deny further funding. [Ref. 64] Upon receipt of marks, program managers must then develop a position paper (reclama) to justify program budget amounts. When preparing reclamas, there are pertinent items that should be included:

- Addressing the issues in the mark.
- Introducing arguments not previously considered.
- Being brief and accurate.
- Writing clearly in non-technical language.
- Keeping impacts complete and factual.

Unsuccessful development of a reclama will result in a revision of the budget for the amount of the mark. [Ref. 65] Successful development of a reclama includes validation that a program has been properly executed. Program managers perform this validation by demonstrating to budget analysts that expenditures have been made.

As the reclama process is initiated, scarce resources in program offices are used to defend the proper execution of

programs. This is an inopportune time for inaccurate expenditure data in the accounting systems to be found. [Ref. 66] Program managers must often go back to the contractors to obtain copies of vouchers and other documentation to validate program expenditures. Consequences of this nature lessen the credibility of the expenditure reporting system. This credibility will be discussed in the next section.

#### **F. CREDIBILITY**

Expenditure reporting delays also impact program execution financial reporting and lead to an inaccurate and misleading financial status for the Marine Corps as a whole. [Ref. 67] Until solutions designed to prevent expenditure reporting delays are implemented, DFAS also risks a potential loss of credibility. As discussed in Chapter II (Background), DFAS was established in 1991 as the accounting firm for DoD. It is responsible for providing effective and efficient accounting systems and services. In order to survive the lean times certain to be in their future, the Marine Corps and DFAS must change and improve the way they conduct the expenditure reporting process.

#### **G. SUMMARY**

This chapter addressed the importance of tracking expenditures as a control tool. It emphasized that without this control tool, program managers cannot accurately assess a program's progress. The chapter further discussed arbitrary reallocations of appropriation data in the accounting system and the consequences of late expenditure reporting of cross disbursements. Also, it looked at some automated tools and inefficient manual efforts to report expenditures. Finally, the chapter analyzed the jeopardy posed to programs by expenditure reporting delays and the potential credibility



loss due to inaccurate information in the accounting system. The adverse impacts resulting from delays in expenditure reporting can have frustrating, if not, devastating effects on program managers. The Marine Corps cannot afford budget cuts as a result of a perceived poor execution status. Resource and time constraints pose challenges. Reliance on a faulty reporting system brings the need for solutions to the forefront. The last chapter of the thesis will focus on possible solutions which may help reduce expenditure reporting delays and their associated unfavorable consequences.



## VI. SOLUTIONS

### A. OVERVIEW

Accounting and finance reports can be important tools to better determine, understand, explain, justify and manage support costs. Accounting and financial information should be available to policy-makers as usable management tools during the decision-making process. To ensure that this information is available, policy-makers should routinely question what we need, when we need it and the cost of the information. Answering these questions requires timely, accurate and comprehensive accounting and financial management information.

In 1981, Elmer Staats, the Comptroller General of the United States said that good financial management can help retain public confidence and trust. Although financial management is often very low on the list of priorities of many top Government managers, it deserves its fair share of their time and attention. In 1985, Charles Bowsher, the subsequent Comptroller General of the United States, recommended a number of changes in Federal financial management. He suggested that for too long, financial management in the Federal Government had been seen, or at least practiced, as a rather narrow function involving mainly budget analysts and accountants. In spite of some progress made over the last two decades, the idea of bringing management issues and analyses to bear upon budgeting and accounting questions has not taken firm root throughout the Federal Government. [Ref. 68] The financial challenge we face today is one of adapting age-old Government practices to a new standard. [Ref. 69] As a role model, DFAS needs to aggressively take on the responsibility to fix the process. There is not one, but a series of problems that have caused the expenditure reporting system to be broken. What is needed is either a series of fixes aimed at each piece of the system that potentially causes delays or

a bottom-up review to establish a completely new expenditure reporting system. In either case, both common procedures and a reduction in regulations are long overdue.

Although this study focuses on Marine Corps expenditure reporting delays, many potential solutions rendered will lend themselves to the larger DoD environment. DFAS is the DoD agency now responsible for accounting for all the Services.

This final chapter explores potential solutions to expenditure reporting delays. It discusses the need for better communication among all players in the expenditure reporting process. Miscellaneous solutions are offered in addition to those labelled as long or short-term. Further, the chapter emphasizes the need for instilling a sense of personal ownership in all stakeholders in the expenditure reporting process. Finally, it concludes with a review of all the chapters.

## **B. COMMUNICATION**

If all stakeholders in the expenditure reporting process put their cards on the table and analyze mutual processes, better solutions can be found. DFAS accounting, contract and procurement personnel and fund administrators for program offices play a large role in the communication process. Instead of passing pieces of paper over a wall, actually talking and coordinating with one another will provide a healthy start to solving problems and preventing the mismatches that lead to expenditure reporting delays. It is important that an office knows what other offices in the process are doing. Feedback on the correction of records during the reconciliation process is especially important. To aid in improving communications and the expenditure reporting process in general, potential solutions are offered in the following sections.

## C. MISCELLANEOUS SOLUTIONS

Solutions found have been assembled from interview question responses and logically developed from the findings described in Chapter IV (Sources of Late Reporting). Miscellaneous solutions have been collected for improving the expenditure reporting process. They are listed as general solutions and as those that specifically belong to DFAS:

### General

- Develop a regulation at the OSD level requiring activities to report charged expenditures to the funding activity.
- Establish a procedure to distribute the contractors' bills/vouchers to all activities that fund on their respective contracts.
- Forward a copy of payment invoices to the comptroller for tracking to preclude marks from NAVCOMPT and OSD.
- Eliminate unnecessary steps in the document flow (routing process).
- Reinforce signing DD250s in a timely manner.
- Find better processes for up-front obligation and expenditure reporting.

### DFAS

- Analyze delays and inconsistencies, make appropriate recommendations to eliminate inefficiencies and then support the decisions necessary to enact those recommendations, regardless of political impact.
- Take the lead to improve the expenditure reporting process in order to provide the Services with accurate and timely expenditure data. DFAS should drive the whole expenditure process, not just collect data.
- Establish task forces to provide feedback and investigate discrepancies to ensure that they complete the accounting cycle when it is discovered that they have not.

In addition to miscellaneous solutions, certain short-term solutions developed from research can be initiated by the stakeholders.

#### **D. SHORT-TERM SOLUTIONS**

##### **1. Internal Controls**

There are four components of a financial control system that provide the framework to ensure that desired results are achieved. These components include: standard operating procedures (SOPs), organizational structure, command awareness and proficiency training, and review and recognition. Utilizing these components can provide the control tools necessary to achieve a high element of success for the activities involved in the expenditure reporting process. For example, command awareness of budget cuts to programs, as discussed in Chapter V (Consequences), may help reduce expenditure reporting delays in the future. As resources become more constrained, activities must pay particular attention to their control systems. Organizational structures should be responsible and accountable for the processes they perform. [Ref. 70] Standard operating procedures (SOPs) should be developed and implemented to be used by financial personnel engaged in the processing and clearance of unmatched disbursements. SOPs help ensure uniformity in processing and clearing unmatched disbursements throughout DoD and reduce the current level of misunderstanding among various activities in the unmatched disbursement process. [Ref. 71] The field suffers from a failure to audit the information entered into the accounting system. In order for project offices to know the total expenditures for their programs, they need to either receive and monitor all vouchers for payment, or have full access to the accounting system. It is imperative that payments are prompt and that data from vouchers are correctly posted into the accounting system.

Once an entry is input to the accounting system and is identified as an error, it may take years to correct.

## **2. Elimination of Unmatched Disbursements**

Cleaning up mismatched files will result in giving program managers a more accurate picture of their programs. If an item appears on the unmatched disbursements list, immediate action must take place. By working the files and correcting erroneous data entries, unmatched disbursements can be eliminated. DFAS should strive to:

- Research and properly resolve existing unmatched disbursements and establish milestones for achieving this objective.
- Provide sufficient resources, including training and management oversight, to the accounting organizations responsible for resolving unmatched disbursements.
- Emphasize to funding and accounting offices the importance of recording all obligations promptly and accurately in the accounting system.
- Stress to all funding, finance and accounting offices the importance of entering disbursements correctly in the expenditure reporting system.
- Ensure that finance office errors are promptly detected and corrected. One method is to modify regulations and procedures to require that copies of necessary documentation be made available to and used by the organizations responsible for resolving unmatched disbursements. Full access to the accounting system by all stakeholders will assist this method as well as reduce the amount of paper used. Documentation should include contracts, acceptances and invoices.
- Empower data input clerks to correct transactions upon initial entry to the accounting system.
- Investigate contract payment notification (CPN). This is a concept to improve the unmatched disbursement process and improve in-transit time for expenditures by direct notification of expenditures to the accounting offices. [Ref. 72]

The changes needed to resolve unmatched disbursements are complex, difficult and costly. The sooner efforts are made to reduce unmatched disbursements, the more accurate current financial reports will be.

### **3. Memorandum Accounting**

Memorandum accounting is an interim measure that involves the transfer of voucher copies among stakeholders before the accounting system receives the data officially. Sending pay related documentation to all organizations involved does not appear to be a cost effective or efficient way to resolve or preclude unmatched disbursements. Such action involves considerable additional costs and requires additional personnel to copy, transmit, receive, reconcile and file documents of records maintained at other locations. It is wasteful, but has become a necessary evil. When the accounting system has not captured expenditure data yet, program offices often perform memorandum accounting with personal computer systems using spreadsheets to handle that data. Memorandum accounting requires many phone calls and other manual efforts. This method serves the temporary purpose of protecting the current year's budget, but still does not provide the necessary action to actually post the expenditures to the respective accounting system. Increasing manpower to manually track vouchers from the comptroller to the project offices and the respective contract offices is a very expensive and inefficient method to report expenditures.

### **4. Cross Disbursement Actions**

Numerous meetings and task groups are occurring to help resolve cross disbursement problems among the Services. To ensure quick reporting of cross disbursements, DFAS needs to be proactive. As a possible solution, one program office has arrived at a short-term solution. According to Paul Mooney from the Joint Services Imagery Processing System (JSIPS), there needs to be a local procedure to effectively account for



other Services' expenditures. His program office is staffed to track incoming funds. It is also staffed to initiate, process and track commitment and obligation documents to insure 100% obligation of all funds and the expenditures for which his station is accountable. To track Marine Corps expenditures, one of his plans is to request that the Marine Corps provide an additional person to perform that function (an increase in personnel). Procedures would be implemented to create a listing of paying stations and telephone numbers (by contract). Additionally, procedures would require a listing from the accountable finance and accounting office showing all contract balances (to be updated and provided on a monthly basis). Lastly, phone calls would be made to the paying station for all contracts with unexpended balances to determine if any payment action has occurred since the last inquiry. [Ref. 73]

All direct cite funding documents at the Joint Services Imagery Processing System (JSIPS) program office follow a strict procedure to process payments for other Service's funds. The following procedures make up the process: (1) each contract document issued reflects the official location and designation of the accounting and finance office (AFO) responsible for payments, (2) when reporting expenditures, the local AFO is the accountable station, but not the paying station, (3) the AFO processes the documentation prepared by financial managers to commit, obligate and expend funds, (4) each accounting station is staffed to record and track all funding documents issued by their office. With regard to (1), for payments made by other Services, a time-lag of at least ninety days is sufficient to estimate when expenditures will be recorded by the local AFO. With regard to (2), these payments are recorded as undelivered orders outstanding or as accrued expenditures unpaid by the local AFO until notification of the payment is received from the paying office. A

record of each disbursement is sent to DFAS by the paying station. The records are then processed and forwarded to the appropriate Service DFAS headquarters which sends the disbursement records to each accountable station on a "by-others" register. An expenditure is recorded when the local AFO enters the data from the DFAS by-others register into its records. With regard to (3), other paying stations are involved if documents such as project orders or military inter-departmental purchase requests are sent to other agencies. The AFO provides support to the commander, comptroller, staff offices and tenant organizations on all aspects of outlays and expenditures. The AFO should be providing this information to the budget office. Obviously, many players are involved in this process. When contracts are received citing funds for which they are accountable, the AFO must follow required procedures to record the obligation, then process and record all expenditures against those contracts. If payments will be made by other paying stations, the accountable AFO should contact the paying station to establish procedures for receiving an advanced (information) copy of all payment vouchers. This enables the accountable station to better project the time frame for recording expenditures. [Ref. 74] Such local procedures are instrumental in ensuring that cross disbursements are reported as soon as possible.

## **5. Training**

As discussed in Chapter IV (Sources of Late Reporting), unmatched disbursements are caused by errors in document preparation and/or transaction recording. Unmatched disbursements are not always identified and corrected in a timely manner. Limited number of personnel have the requisite knowledge, skill and ability to research and correct unmatched disbursements. Training curriculum and material are needed for personnel to prepare and approve financial documents,

record financial transactions and identify and clear unmatched disbursements. Data entry clerks at the DAO need to know about types of appropriation data. Clerks working the unmatched disbursement files should know the appropriation numbers that coincide with fiscal years in order to reconcile funding mismatches. Having some accounting knowledge in addition to keypunching skills will enhance their performance in helping to track entries to the end of the reporting process. For example, data can be verified at the entry level to ensure that there is an obligation prior to a payment (expenditure). Consistency can be gained by tracking program funds throughout the year, not just during critical times. Finally, educating personnel in project offices can also enhance the expenditure reporting process. Solutions designed for the short-term will satisfy immediate concerns; however, long-term solutions will ultimately cause an efficient process to evolve. The next section will discuss long-term solutions that have been developed from the research.

## **E. LONG-TERM SOLUTIONS**

### **1. Standardization**

Currently, each office that processes a document assigns its own document number to it. This causes an unneeded duplication of effort and an inefficient collection of unrelated reference numbers. What is needed is a standard document reference number to be used by all offices involved in the process. Compounding the problem of lack of standardization is that all Services do not use a standard document for all products and services delivered. An idea that was suggested during research is that of bar coding all vouchers to be input to the accounting system. [Ref. 75] A bar coding system would help to standardize both the documents processed and their inherent reference numbers, thus reducing processing time into the accounting system.

What is needed is one standard format with all Services using the same number of digits. To this end, DFAS-HQ is in the process of publishing the budget accounting classification coding (BACC) structure. This structure will consist of a DoD-wide 200 character standard line of accounting data that is intended to help streamline the expenditure reporting process, including cross disbursements. The new structure will provide a common denominator for all Services to talk to each other and keep the flow of documents moving. Beyond this, Congress could originate appropriation in one standard format and then require that format to be perpetuated throughout the entire Government so that ultimate users could work with the same data requirements. This goal coupled with an integrated database, could help provide the ultimate answer to the issue of standardization.

## **2. Accounting Systems**

The Chief Financial Officers (CFO) Act has emphasized the need for more useful financial information that goes well beyond traditional obligation and expenditure data. It requires cost and performance measures, thus linking cost efficiency with performance effectiveness. [Ref. 76] The current accounting systems were not designed to give us this type of information on a real-time basis. The financial systems accumulate data in old fashioned ways. A solution is process improvements. Finance, accounting and acquisition databases must be brought into balance in order to eliminate unmatched disbursements.

As the repairer of a breach in the system, DFAS must make the effort to develop a fully integrated mechanized single finance, accounting and acquisition system that eliminates as many existing deficiencies as possible. Prompt and accurate payments of vendors' invoices and the validation and perpetuation of accurate lines of accounting data should result. The system must ensure that every expenditure matches a valid

obligation document. This will eliminate unmatched and undistributed disbursements and improve the budget formulation and execution process. The result will be a reduction of future manpower required to manage and correct the large volume of disparities (mismatches between obligations and expenditures) in the accounting system. [Ref. 77]

A contracting agency may show all funds on a certain program obligated and expended. The finance office may have another set of figures dealing with the same program. Until one integrated system is available, DFAS should be able to reconcile both sets of accounting records using the current accounting system. Eventually, the same set of data should be accessible by all stakeholders.

There should be one compatible accounting and finance system for all DoD Services. DFAS should discard what currently exists and start over with a bottom-up strategy that promotes end user access and friendliness. Accounting data should be put into a central database that can be accessed by all stakeholders. The accounting system needs to be idiot-proof with built-in edits and automated red flags, capable of providing straight-forward information. Perhaps a place to start is to pick the very best of all existing in-house or commercial off-the-shelf capabilities and then add other pertinent capabilities.

For resolving the problem of expenditure reporting, the future vision of an accounting system is an integrated database capable of serving the finance, accounting and acquisition communities. Key traits of this concept include standard data elements, source data entry, standard business practice, real time data update, uniform contract structure and format and electronic data interchange (EDI) using standard transaction sets. Other key traits include consolidated accounting systems, direct links, accurate and timely financial data and reduced reliance on paper copies. Any

future system should allow contract data entry to be the responsibility of those most knowledgeable about the contracts. Instead of financial management personnel, organizations preparing contracts should input data. Data integrity, consistency, quality and timeliness will be greatly enhanced if data elements are standardized and entered at the source only once and in a timely fashion. [Ref. 78]

The future system should provide rapid updates to allow program managers to make decisions based on current data, thereby improving the system to plan and budget for future programs. A 'real time' system should have subsystems that interface with each other. For example, MCERRS data could flow into SABRS which immediately flows to the HAS. As a standard database, any system can collect, format and relate to other subsystems. Stakeholders must provide the interface when using it. The system should have the goal of processing all payments within Prompt Payment Act requirements, thus further closing the gap between expenditures and the reporting of those expenditures.

### **3. Electronic Data Interchange**

A general way that management can exploit data processing and communications technology is to reduce the information float, or the lag in information usage after its origination. It has long been recognized that time is money, and reducing the information float can reduce the time lag involved throughout many facets of the organization. [Ref. 79]

At the DoD level, DFAS is looking into the extensive use of electronic commerce with electronic data interchange (EDI) and expanded transaction sets. EDI will help to eliminate multiple re-entry and make timely distribution of contractual and financial data. DFAS has the vision to resolve unmatched disbursements by using an integrated, cross-functional database that serves both the acquisition and financial management communities. A DFAS-HQ long-term initiative is to

accomplish the smooth transmission of data among its finance and accounting centers. Another DFAS goal is to implement a concept called Direct Contract Payment Notification (DCPN) for all centers to cause the flow of disbursements from the paying office directly to accounting systems. DCPN is another attempt to modernize the routing process with all electronic transfers of data, eventually involving no paper. This will greatly improve the accuracy of data. [Ref. 80]

#### **4. Consolidation/Reorganization**

DFAS is the catalyst to improve accuracy in expenditure reporting initiatives. It is doing this partly by reorganizing operations and consolidating functions where efficiencies are deemed feasible. In fact, consolidation efforts are underway to bring together hundreds of DoD accounting offices into five major centers (called megacenters) with twenty operating centers reporting to them. Functional entities considered under this plan include accounting, budgeting, contracting, disbursing/finance (DAO), comptroller and other related functions that are candidates for reducing the layers in the process. Original guidelines that kept functions separate are responsible for the outgrowth of each of these areas. Contraction of functions should show improved efficiencies. The parallel effort of consolidating organizations and creating one centralized database system is occurring slowly and is expected to save resources over time. The complexity of organizations will determine the initial costs of consolidation. Eventually, thirty to forty percent of personnel will be cut across DoD, potentially causing a temporary increase in unmatched disbursements during the initial confusion. [Ref. 81] Better organization, understanding of root cause problems and matching data bases among the various functional communities should be reviewed in each organization. [Ref. 82] Long-term solutions will serve to lessen the current frustrations experienced by

program managers. Next, emphasizing ownership in employees can be viewed as either a long or short-term solution.

#### **F. OWNERSHIP**

Managers involved in any aspect of the expenditure reporting process have the challenge at hand to instill a sense of ownership among their personnel. This ownership, and the responsibility that goes along with it, should extend to all employees. As documents are processed among the stakeholders' offices, attention must be focused on follow-through action to ensure correct expenditure postings. When tracking obligation, and expenditures in their specific programs, personnel should be motivated with incentive rewards for accuracy and timeliness. A proactive stance will prove more favorable than waiting for inevitable negative consequences such as budget marks. Data input clerks could use an incentive for accuracy to help focus on the end product, not just their piece of the process. Much emphasis is needed to instill the discipline to prevent unmatched disbursements from occurring in the future. [Ref. 83] Finally, command attention to expenditure reporting problems and the realization that fund providers (program offices), not DFAS, receive the negative impacts of erroneous expenditure reporting may help reinforce the need for more expenditure reporting initiatives. [Ref. 84]

#### **G. SUMMARY**

Short and long-term suggestions have been offered to provide solutions to expenditure reporting delays; these suggestions have the potential to close the gap between expenditures and the reporting of those expenditures. Short-term solutions can be implemented almost immediately, where long-term solutions may take considerably longer to implement. The notion of any solutions, however, is only useful if the



solutions are ultimately implemented by the expenditure reporting community. DFAS has a large set of tasks to be implemented in order to satisfy the end users of the system - the Marine Corps program managers.

#### **H. THESIS REVIEW BY CHAPTER**

Chapter I (Introduction) stated the purpose of the thesis. It defined the problem for Marine Corps program managers at MARCORSYSCOM in relation to their ability to make effective decisions for future planning, programming and budgeting or to defend their budget requests. It explained the objectives of the study and stated the primary and subsidiary research questions. It further defined the scope, limitations and assumptions behind the research effort before discussing the research methodology. Finally, Chapter I addressed literature research and concluded with a listing of terms, definitions, and abbreviations.

Chapter II (Background) provided a setting of information on which to view the expenditure reporting delay problems encountered by program managers. It mentioned Department of Defense accounting and finance initiatives for improvements in transaction recording and stressed the importance of eliminating expenditure reporting delays.

Chapter III (Current Processes) started the analysis portion of the study and explored the entire expenditure reporting process by looking at its pieces. It illustrated that expenditures must go through multiple actions and systems before they complete the entire cycle. As a result of this complicated process, the opportunity for error not only exists but perpetuates further errors.

Chapter IV (Sources of Late Reporting) analyzed the origins of late expenditure reporting in the Marine Corps. It discussed similar findings in the Navy and broke the sources down into logical categories including types, causes and

situations which lend themselves to expenditure reporting delays. It discussed why the root causes of unmatched disbursements are due to incomplete or inaccurate data in accounting systems, in addition to a lack of timely communication among the stakeholders.

Chapter V (Consequences) pointed out the adverse impacts of late expenditure reporting and completed the analysis portion of the thesis. It talked about cross disbursements and looked at memorandum accounting as an alternative means to prove and substantiate program budget execution. Finally, it analyzed the potential funding jeopardy posed to programs by expenditure reporting delays.

The last chapter, Chapter VI (Solutions), explored potential solutions to expenditure reporting delays. It discussed the need for better communications among all players in the process and offered a series of short and long-term solutions to bridge the gap between actual expenditures and the reporting of those expenditures.

**APPENDIX. INTERVIEW QUESTIONNAIRE**  
INTERVIEW QUESTIONS

I'm here to find ways to improve the expenditure reporting process. Here is the way I see it. Since you are a key player, I'd like to get your thoughts on how the system works.

How do you fit into the process?

What is an ordinary entry? How long does it take to post?

What is an excessive delay? How long does it take to post?

Where do you see delays in the current expenditure reporting system?

What are the causes/sources of delay?

Are there certain attributes of an expenditure that cause it to post later than other entries? What are they?

What do you see as the role of the Defense Finance and Accounting Service in relation to the delays of expenditure reporting?

Are there other programs besides joint programs that experience similar delays?

What do you see as the consequences (impacts) of delays?

What steps could alleviate the delays in the short-term?

What long term solutions exist?

Additional Comments/Concerns

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